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Attach graphics of Computed
Measures

Computed Measures calculations and
layouts
(under development)

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NOTE: THIS SECTION OF APPENDIX D PROVIDES EXAMPLES OF FINDINGS FOR SOME BUT NOT ALL TAX FUNCTIONS.

TAX PERFORMANCE SYSTEM

ANNUAL REPORT FOR 1995

SECTION II

DETAILED REPORT FOR EACH FUNCTION

For each tax function, the report should be complete - it should be able to stand alone

Synopsise findings up front, with details to follow

STATUS

Findings from Computed Measures indicated that both New and Successor Status Determinations were completed in a timely manner and have continued to improve. Reasonable Assurance of accuracy was found in all categories of Status Determination and Posting -- Newly established accounts, Successors and Inactivations/Terminations.

Computed Measures Findings:

Briefly describe what was measured

Indicator 1. Percent of Status Determinations of newly established accounts made within 90 days from the last day of the quarter in which the account first became liable:

Cite several years' worth of data (when available)

<u>1993</u>	<u>1994</u>	<u>1995</u>
80.3%	80.6%	81.2%

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Computed Measures Findings (cont.)

Indicator 2. Percent of Status Determination of newly established accounts made within 180 days from the last day of the quarter in which the account first became liable:

1993 1994 1995

98.2% 98.7% 99.3%

Indicator 3. Percent of Status Determinations of Successor accounts made within 90 days from the last day of the quarter in which the account first became liable as a Successor:

1993 1994 1995

85.6 87.3% 89.3%

Indicator 4. Percent of Status Determinations of Successor accounts made within 180 days from the last day of the quarter in which the account first became liable as a Successor:

1993 1994 1995

89.6 99.7% 99.7%

If the unit is strong in an area, say so. The percent of Status Determinations completed for both New and Successor employers indicated that the State is doing very well. During the past two years, emphasis has been placed on the timely completion of Successor Determinations and it is evident that there has been a positive effect on performance.

Attempt to identify and evaluate any trends

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<p>Clearly state whether any cases failed or not</p>	<p><u>Program Review Findings:</u></p> <p>Reasonable Assurance of accuracy was confirmed in all three Acceptance Samples. The Status New Determination and Status Inactivation/Termination Acceptance Samples passed the review with no failing cases.</p>
<p>If risk was found, specify the nature of the problem</p>	<p>Although all categories of Status Acceptance Samples passed, some weaknesses in the Successor function were identified in the Systems Review. These weaknesses indicate a need for written procedures and instructions to be updated, a need for improvement in documentation of investigative procedures and a more systematic review of completed Successor Determination work.</p>
<p>If cases failed, note how many and the reasons for failure (clarify that less than 3 failures out of 60 cases are still "acceptable")</p>	<p>The Successor Determination Acceptance Sample passed 58 of the 60 cases. (There is "reasonable assurance of accuracy" if two or fewer samples fail sampling review.) The two failing cases contained no evidence or documentation that fact-finding investigations had been conducted. The SESA procedures require a thorough investigation before making a Successor Determination, and such fact-finding is required to be documented. In connection with this lack of documentation of fact-finding, Systems Review risks were identified in the following categories:</p>
<p>Clearly describe each area of risk</p>	<ul style="list-style-type: none"> ! Recorded instructions - Successor instructions in the operating manual did not spell out current investigative fact-finding requirements. ! Training - No back-up training for employees in the Successor area. ! Recording of Transaction and Events - Documentation is not being maintained to support that fact-finding procedures are being followed.

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Explain any inconsistency between Systems Review and Acceptance Sample findings

When recommending improvements, explain the material effect the risk has on the tax system

It is suggested that recommendations are developed with input from State tax staff and Regional staff

Program Review Findings: (cont.)

- ! Review of Completed Work - No systematic review of Successor Determinations is currently being conducted.

The overall passing of the Successor Acceptance Sample when risks were identified during the Systems Review seems to be directly related to a knowledgeable, long-time employee who makes Successor Determinations; however, complete reliance on the presence of long-time employees to overcome the lack of controls poses a risk because an employee could retire, become ill or otherwise become unavailable.

Improvements are recommended in all the areas where risks were identified because inaccurate Successor Determinations can result in lost revenue to the SESA's trust fund.

Recommendations:

- ! Implement a plan to periodically update the operations manual to ensure that recorded instructions are current (particularly in the Successor area).
- ! Describe the proper fact-finding procedures required for making successor determinations, and include the level of documentation required to substantiate that fact-finding was conducted.
- ! Institute a "back-up" training program in the Successor area.
- ! Institute a systematic review of completed Successor Determinations to ensure that all procedures have been followed.

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Take into account both the
Computed Measures and Program
Review findings.

COLLECTIONS

In the Collections function the Systems Review indicated that all controls were present, and the Acceptance Sample cases verified that the State's procedures for collection activities were being followed. The Computed Measures, however, indicated that the State may be experiencing some problems in managing the Accounts Receivable.

Computed Measures Findings:

Indicator 1. The percent of employers making timely payments was as follows:

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Contr	90.6%	91.0%	91.1%
Reimb	98.1%	98.3%	98.4%

Indicator 2. The turnover ratio (ratio of receivables liquidated and declared uncollectible compared to tax due) for the past three years was:

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Contr.	1.4%	1.3%	1.3%
Reimb.	1.7%	0.6%	1.6%

Indicator 3. The percent of tax due declared uncollectible was as follows:

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Contr.	0.5%	0.8	0.6%
Reimb.	0.2%	0.1%	0.5%

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Computed Measures (cont.)

Indicator 4. The percent of unpaid contributions/reimbursements due (the percent of accounts receivable at end of the report period compared to tax due) was:

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Contr.	7.2%	7.3%	7.4%
Reimb.	3.4%	3.4%	3.1%

These measures indicated that voluntary payment compliance, the turnover ratio, and the amounts declared uncollectible have remained constant; however, the amount of unpaid contributions has continued to increase. The collection tools currently utilized by the State in collecting past due money should be examined for effectiveness.

Program Review Findings:

All internal controls in the Collections function were found to be in place, and the Acceptance Sample cases validated that the procedures were being followed. Thus reasonable assurance that all State collection procedures were being followed was confirmed, however, the Computed Measures indicated that accounts receivable were not being reduced in a timely and efficient manner.

Improvements are needed in the collections procedures. The tools currently available to the collections unit should be re evaluated, with consideration given to implementing other, more effective methods to collect accounts receivable.

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Utilize Methods Survey information from other States to develop ideas for recommendations

Recommendations:

! Continue evaluation of the tools and procedures of States X, Y and Z (whose Computed Measures data indicate a more efficient and/or effective management of their accounts receivable).

! Implement additional collection procedures and/or tools where warranted, and where such implementation is feasible.

Examples of collection tools that should be considered for implementation follow:

1. Develop criteria to identify "chronic" employers and require immediate lien filing and involuntary collection actions for these employers.

2. Program computer to create a Notice of Tax Lien document for any unpaid liability that is 60 days old. In the interim, institute manual suspense system to have tax liens initiated when liability is 60 days old.

**ET HANDBOOK NO. 407
TAX PERFORMANCE SYSTEM**

APPENDIX D

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If cases failed, say how many

If the function performed well
elsewhere, say so

FIELD AUDIT

Reasonable assurance of quality could not be confirmed in the Field Audit program as five of the Acceptance Sample cases failed. The Computed Measures, however, indicated that the State did exceed the DOL audit penetration level requirements and performed well in total wages audited and in percent of change in total wages audited.

Computed Measures Findings:

Indicator 1. Percent of change in total wages resulting from audits:

<u>1993</u>	<u>1994</u>	<u>1995</u>
1.6%	11.6%	14.3%

Indicator 2. Percent of contributory employers that are audited:

<u>1993</u>	<u>1994</u>	<u>1995</u>
4.3%	2.6%	2.8%

Indicator 3. The percent of total wages audited:

<u>1993</u>	<u>1994</u>	<u>1995</u>
1.2%	2.0%	4.0%

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Computed Measures Findings (cont.)

The percent of change found in audits (Indicator #1) for the last three years has shown a significant increase. This is attributable to a more in-depth search for unreported and misclassified wages, and the targeting of employers for audit using the State's modified IRS 1099 information exchange program.

The second indicator reflects that the State has exceeded the required DLA penetration rate of 2.0%.

The third indicator, percent of total wages audited, has increased during the past 3 years because emphasis is no longer being placed on auditing small employers, and due to the ESM's requirement that one percent of all audits must be large employers.

Program Review Findings:

Reasonable Assurance of quality could not be confirmed in the Field Audit function. The Systems Review revealed that field auditors have not received any form of refresher training. Such training is needed to assure that field auditors are skilled in conducting tests of employer payroll systems, examining the proper employer records, drawing the proper conclusions in their search for misclassified workers, and in providing adequate documentation in their audits.

Risks were identified in the following categories:

- ! Training - The State has no provision for refresher training for the audit program.
- ! Recording of Transactions and Events - Adequate documentation is not being provided by the field auditors.

The risks identified were supported by the failure of the Field Audit Acceptance Sample. Five of the 60 Field Audit Acceptance Sample cases failed. Two cases failed because the verification of the payroll posting system was not completed from a source document. Three cases failed due to inadequate documentation regarding a search for misclassified employees and hidden wages.

Cite specifically why each case failed.

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If improvements have been made, say so.

Program Review Finding (cont.)

Even though five of the Acceptance Sample cases failed, the Field Audit Program showed vast improvement over last year's review when 38 out of 60 cases failed. This improvement is due primarily to the revisions to the Field Audit Manual, update of the Field Audit forms, and a cursory review of all field audits.

Recommendations:

- ! Initiate refresher training courses for all field auditors.
- ! Ensure that field auditors provide supporting documentation for tests of employer payrolls and when searching for misclassified workers.
- ! Institute a review system whereby all audits are equally subject to review and also review a greater number of those audits completed by auditors who have not yet exceeded a predetermined experience level or whose error rate exceeds a predetermined level.
- ! Consider State X's process of utilizing peers to review the quality of completed field audits.

If other States have successful procedures in place, consider noting them as recommendations.

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ACCOUNT MAINTENANCE (Employer Debits/Billings)

Reasonable assurance of quality could not be confirmed in the Account Maintenance function for processing employer debits and/or billings.

Program Review Findings:

The Systems Review for Employer Debits/Billings was completed without identifying any risks; however, of the 60 Acceptance Samples cases, three were found unacceptable which caused the entire sample to fail the review. Investigation showed this inconsistency directly related to: 1) the interpretation of the written procedures for preparing reports for scan posting to the computer; and 2) the programming of the computer system.

Both factors center around the second line in the "for Dept Use Only" box on the report forms. This line contains four blocks. Procedures require staff to darken one of these blocks, depending on what category the report falls into. Review of the actual report forms showed the correct block had been identified, but only partially darkened, and with a light blue pencil mark.

These employers should have been issued a billing that included the 10% late payment penalty and shown the liability as immediately collectable. However, in all 3 cases, the computer had treated them as "signed with full payment" reports. Under this category, the computer issued a billing which allowed an additional 30 days to pay the liability without penalty. This type billing prevents the Department from pursuing involuntary collection for 35 days.

Explain any inconsistencies

Show the problem's impact on the tax operation

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Describe the effect of the problem area

Program Review Findings (Cont)

The procedures were explicit about which block to mark for each category and these procedures had been reviewed and approved by ADP staff as current, accurate and complete.

However, the procedures did not address the color the pencil to be used, or expressly specify that the entire block must be darkened.

The above factors were compounded by the programming which did not allow for the computer not being able to "see" a mark on the block line. When this happened, the computer would treat the unpaid report as an error in computation report and issue the billing previously described.

Erroneous billings can cause: significant reductions in penalties that should be imposed; a slowdown of action against employers who otherwise meet the criteria for immediate collection actions; inequity for the vast majority of the employer community who pay payroll taxes timely.

Recommendations:

- ! Immediate use of black #2 pencils in all units preparing reports for computer scanning.
- ! Instruct first level supervisors to include a cursory review of the size and darkness of the marks in this line on the report when reviewing staff's work for completeness and accuracy.
- ! Clarify the written procedures to make it clear that the block must be completely darkened and specify use of the correct pencil.
- ! Modify programming of the computer so that if the computer can't "see" a mark on the block line, that it will post the report to "error suspense" for follow up by the staff of this unit.